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Japanese Economy Shows Rapid Growth

The Japanese economy expanded at a real annual rate of 8.4 percent in the June-September period compared to a flat performance in the previous three months, the Economic Planning Agency reported December 4 (see Table). On a quarter-to-quarter basis, growth hit 2 percent for the first time since January-March 1977. Despite the spurt, the EPA stressed that the economy was not overheating, pointing out that both wholesale and consumer prices are fairly stable.

In December 1986 the government set 3.5 percent as the target growth rate for real gross national product for fiscal 1987, which ends March 31, 1988. Compared to private forecasts issued at the time, this prediction was optimistic, although it now appears achievable. Public works spending is expected to have a big impact in the second half of the fiscal year, and a rise

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1985	FY 1986	October-December 1986	January-March 1987	April-June 1987	July-September 1987
Gross National Product	Y293,903.6	Y301,679.7	Y302,299.0	Y306,780.1	Y306,805.8	Y313,046.7
	(4.4%)	(2.6%)	(2.8%)	(6.1%)	(0.0%)	(8.4%)
Personal Consumption Spending	163,315.8	169,195.1	168,584.8	171,935.2	173,089.9	174,678.2
	(2.8%)	(3.6%)	(-2.3%)	(8.2%)	(2.7%)	(3.7%)
Private Residential Construction	14,095.9	15,637.9	16,263.4	16,459.1	16,950.2	18,696.9
	(2.9%)	(10.9%)	(22.6%)	(4.9%)	(12.5%)	(48.0%)
Private Fixed Nonresidential Investment	53,920.4	56,361.2	56,543.9	57,949.6	58,973.3	60,292.3
	(13.2%)	(4.5%)	(7.3%)	(10.3%)	(7.3%)	(9.3%)
Change in Business Inventories	2,036.0	515.2	885.7	143.9	906.7	1,046.3
	(*)	(*)	(*)	(*)	(*)	(*)
Government Current Expenditures	27,158.2	29,002.0	31,983.9	28,384.9	28,726.6	28,631.7
	(1.6%)	(6.8%)	(70.9%)	(-38.0%)	(4.9%)	(-1.3%)
Government Fixed Investment	20,796.1	22,162.2	22,262.1	22,417.9	22,797.4	23,545.4
	(-6.3%)	(6.6%)	(3.6%)	(2.8%)	(6.9%)	(13.8%)
Change in Government Inventories	297.8	816.0	-1,891.6	226.2	-102.2	-9.2
	(*)	(*)	(*)	(*)	(*)	(*)
Net External Sector	12,283.4	7,990.1	7,666.9	9,263.3	5,463.9	6,165.1
	(20.9%)	(-35.0%)	(13.5%)	(113.1%)	(-87.9%)	(62.1%)
Exports of Goods and Services and Factor Income Received	54,664.2	52,689.5	52,147.6	53,451.0	52,466.1	55,958.2
	(2.1%)	(-3.6%)	(-2.3%)	(10.4%)	(-7.2%)	(29.4%)
Imports of Goods and Services and Factor Income Paid	42,380.8	44,699.5	44,480.7	44,187.7	47,002.2	49,793.1
	(-2.3%)	(5.5%)	(-4.8%)	(-2.6%)	(28.0%)	(26.0%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

at an annual rate of only 1.2 percent for the rest of the fiscal year would lift GNP to the target level.

The growth of domestic demand was broad-based in the July-September period, with no sectors acting as drags on the economy. Housing was the strongest sector, increasing 48 percent on an annualized basis and accounting for almost 30 percent of the expansion. Residential construction has been strengthening for more than a year, thanks in part to a decline in mortgage rates. Consumer spending was sluggish only when compared to other sectors, contributing 25 percent of the total. Government investment also expanded rapidly, accounting for 12 percent of growth, reflecting the front-loading of public works spending.

External demand contributed 11 percent, a substantial change from the April-June quarter when it had actually shrunk. While the latest figures would appear to suggest that the trade surplus has stopped declining, EPA analysts said that was not the case: net external demand was larger because income on foreign investments, particularly in the United States, grew rapidly. This brings up a complicating factor in the bilateral current account. Even if Japan's imports from the United States increase and its exports to this country fall, the bilateral surplus might not decline if investment in the United States rises significantly. The EPA said it expected net foreign demand to return to a negative trend in the October-December quarter.

In general, the GNP report is very good news for officials in Tokyo and Washington. Growth was substantial in those areas that most directly indicate improvements in the standard of living: housing and consumer expenditures. The data also show that Japan is, as the United States has persistently requested, reflating its economy. In time, growth in Japan may make it a little easier for the United States to reduce its own trade deficit and to stabilize the value of the dollar.

Douglas Ostrom

Japan Escapes Criticism On Macroeconomic Policies

Japan's monetary and fiscal policies are just fine, the world's economic leaders seem to be saying. Of course there is some displeasure over the bidding on the Kansai International Airport and agricultural imports continue to rile Washington, to name only two issues, but few foreign officials say anything critical about Tokyo's macroeconomic policies.

At the last Group of Seven meeting in February, Japan and West Germany agreed to reflate their economies and the United States promised action on its budget deficit. Taken together, the policies were seen as part of a package to stabilize the value of the world's major currencies. In the past few months, international currencies have been anything but stable. Clearly something went wrong. The United States fingered Western Europe, especially West Germany, for not reflating enough. The Europeans and the Japanese have lectured the United States for doing almost nothing about its budget deficit. No one has criticized Japan. Michael Camdessus, the International Monetary Fund's managing director, has said "Japan is behaving very well."

is the case in the United States, Japanese regulators are worried about possible conflicts of interest and liability questions. If the investment operations sustain a heavy loss, for example, the assets of the commercial banking operations must not be used to offset the losses, and vice versa. In another example, regulators want to insure that banking assets will remain beyond the reach of legal actions directed at the securities subsidiary -- the corporate veil must remain inviolate.

Next summer the council will study implementation measures. Although some reference to Article 65 is unavoidable, the head of the council does not expect to delve deeply into the subject. All of this means that nothing, beyond the broad generalities of the council's recommendations, has been firmly decided. All sides can be expected to increase lobbying and other efforts before any legislation is submitted.

Jon Choy

Japan's Aid Program Criticized

Japan ran into a barrage of criticism during the annual talks of the Development Assistance Committee of the Organization for Economic Cooperation and Development. Committee members, who convened December 1 and 2 to discuss ways to improve DAC guidelines on development assistance, urged Tokyo to increase its official development assistance to at least the DAC target level -- 0.7 percent of gross national product. Japan's ratio was only 0.29 percent in 1986 -- putting it 14th of the 18 members. (Only Ireland, New Zealand, the United States and Austria had lower ratios than Japan.)

The DAC also criticized Tokyo's capital-intensive aid programs, saying that Japan's ODA focuses on capital-intensive projects to a much greater extent than that of most other donors. More than 45 percent of last year's aid was earmarked for improvements in public utilities, industrial, mining and construction projects (see Table). Members noted that such projects can lead to the informal tying of aid to Japanese exports, since their completion requires foreign supplies of sophisticated equipment, especially in the areas of telecommunications, power generation and transportation.

Japan replied that its plan to recycle $20 billion of its current account surplus to the developing countries was evidence of its commitment to the third world and its willingness to contribute to international economic stability (see JEI Report No. 41A, October 30, 1987). Officials also emphasized a $500 million fund for Africa that will consist primarily of grant aid. But the fact that the DAC members singled Tokyo out for criticism indicates that the aid initiatives will be of limited public relations value unless Japan moves to improve other measures of its ODA. This means improving not only the ODA/GNP ratio, but also the grant element of ODA, a measure of the quality of aid. At 80 percent in 1986, Japan fell below the DAC's 86 percent target, but was significantly above its 73.5 percent level in 1985.

Tokyo's aid efforts during the last few weeks have focused on Southeast Asia. Officials met with representatives from the Association of Southeast Asian Nations November 30 to discuss the specifics of a $2 billion fund that Prime Minister Noboru Takeshita is expected to announce in mid-December at the

Manila ASEAN summit (see JEI Report No. 39B, October 16, 1987). The package, which is part of the $20 billion recycling fund, is expected to consist primarily of low-interest loans. ASEAN members have reportedly been pressuring Tokyo to agree to lower interest rates than it has in the past, since the yen's appreciation has made repayment of existing debts difficult for countries such as Indonesia, Malaysia and the Philippines. News reports indicate that although the Ministry of Foreign Affairs supports the idea, the Ministry of Finance fears that lowering interest rates on ASEAN Fund loans might establish a precedent for future aid flows.

Eileen M. Doherty

Distribution of Japan's Bilateral ODA Commitments, 1985-86*

(in millions of dollars)

	1985	1986	Percent Change 1985/86	Percent of Total 1985	Percent of Total 1986
Public utilities	$1,756.6	$1,510.8	-14.0%	43.1%	34.8%
Planning and public administration	25.8	30.8	19.4	0.6	0.7
Agriculture and fisheries	699.5	521.9	-25.5	17.2	12.0
Industry, mining and construction	432.1	530.5	22.8	10.6	12.2
Trade, banking, tourism and services	18.7	30.7	64.2	0.5	0.7
Education	317.8	362.6	14.1	7.8	8.4
Health	161.9	135.5	-16.3	4.0	3.1
Social infrastructure and welfare	117.7	158.1	34.3	2.9	3.6
Multi-sector	98.6	23.7	-76.0	2.4	0.5
Unspecified**	144.6	245.4	69.7	3.6	5.7
Not allocable by sector***	302.4	792.0	161.9	7.4	18.2
Total	4,075.6	4,341.9	6.5	100.0	100.0

*Commitment basis.
**Includes administrative costs.
***Includes commodity loans, food aid, debt relief and other types of aid.

Notes

JAL, NTT Stock Sales - Tokyo's fiscal constraints have been eased, in large part due to the highly successful auctions of government-held shares of Nippon Telegraph and Telephone Corp., which dominates the nation's domestic telecommunications market, and Japan Air Lines Co., Ltd., the world's largest international carrier in terms of passengers carried.